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Navigating Chinese Patent Litigation Minefield - How to protect yourself from large damage awards

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Summary

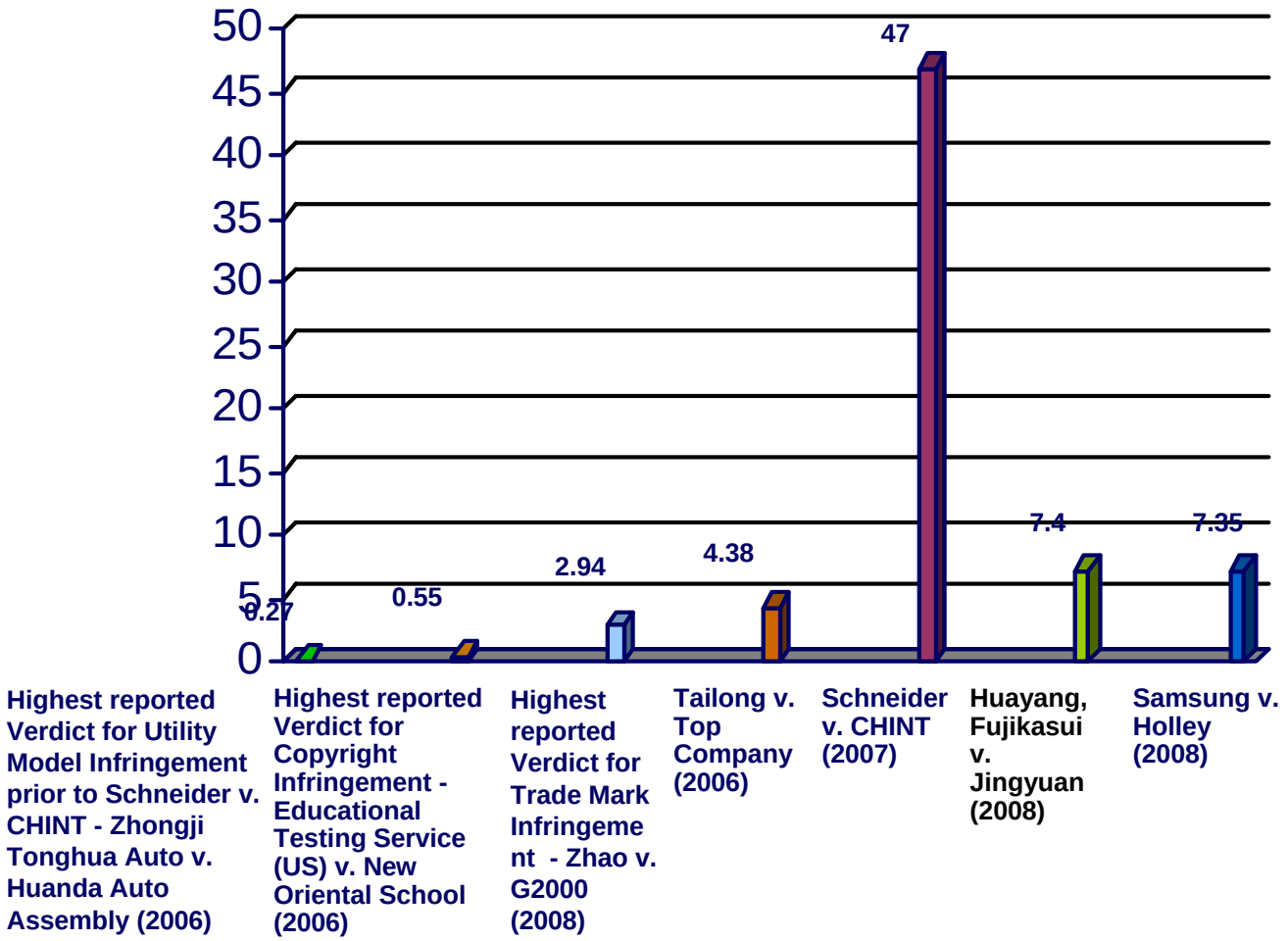
- Large damages are being awarded
- Monitor competitors' Chinese patent portfolios and prepare early to gather evidence of prior art
- Find best prior art and substantiate it
- Consider filing invalidation actions before a case becomes political
- Consider opportunities of forum shopping
- Prepare for EPOs
- Argue that total profits should be apportioned

Overview

- During the past few years, Chinese courts have awarded exceptionally large damages in patent infringement cases:
  - Schneider v. CHINT (USD 47 million)
  - Samsung v. Holley (USD 7.35 million)
  - Huayang, Fujikasui v. Jingyuan (USD 7.4 million)
  - Tailong v. Top Company (USD 4.38 million)
- The top three large damages were awarded against foreign or foreign invested companies.

PRC IPR Verdict Comparison

Millions (Dollars)



CHINT v. Schneider - Company Profiles

- Schneider Electric
  - Fortune 500 company, based in Paris.
  - Market leader in electric systems.
  - Completed major M&As in Europe and China.
- CHINT Group
  - Chinese manufacturer of low-voltage electric circuit breakers, based in Wenzhou, Zhejiang Province.
  - Started as a garage shop in mid-1980's and emerged as a major local player in early 2000's.
- Litigation
  - Multiple patent infringement suits between the two in Europe and China.

CHINT v. Schneider – Case summary

mid-Nov. 1997	**CHINT applies for a utility model for "a miniature circuit breaker".**
March 1999	CHINT obtains its utility model.
late July 2006	**CHINT files its Complaint against Schneider** at the Wenzhou Intermediate People's Court. CHINT initially sought 500,000 RMB in damages from Schneider.
late August 2006	Schneider applies to invalidate CHINT's utility model patent before the Patent Review and Adjudication Board (PRAB) of SIPO.
Dec. 2006	The PRAB holds oral hearings on Schneider's invalidation filed in December 2006.
late April 2007	**The PRAB issues its decision upholding the validity of CHINT's utility model**, with respect to Schneider's invalidation filed in late August 2006.
late- April 2007	Heard by the Wenzhou Court
late Sept. 2007	**The Wenzhou Court issues its record judgment (about USD 47 million).**
October. 2007	Schneider appeals the Wenzhou Court's judgment to the Zhejiang Higher People's Court and appeals the PRAB decision to the Beijing Intermediate Court

CHINT v. Schneider - Comparison of Schneider Prior Patent with CHINT UM Patent

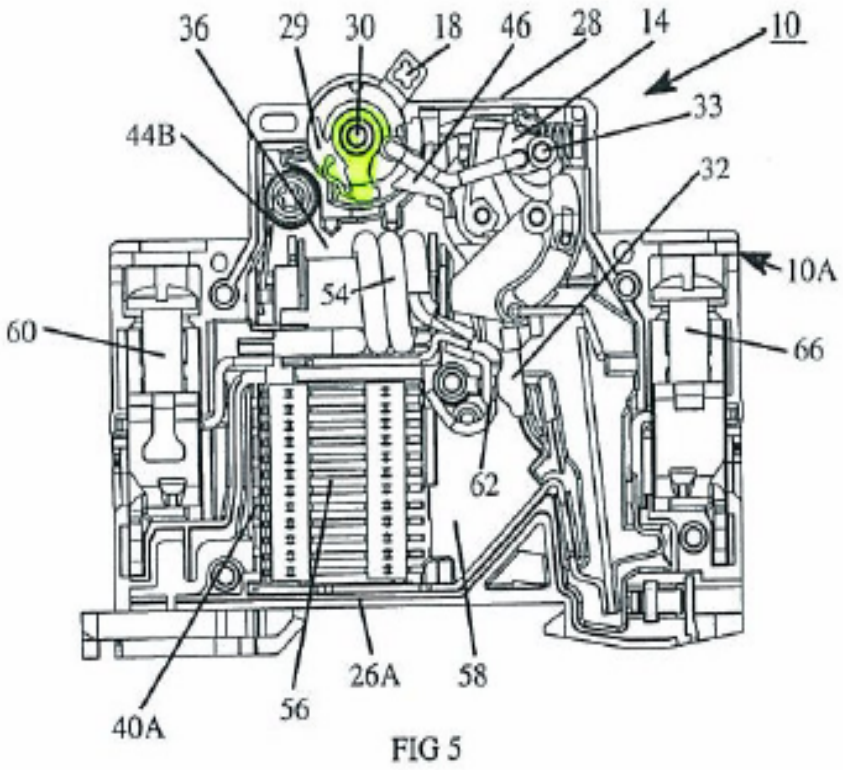
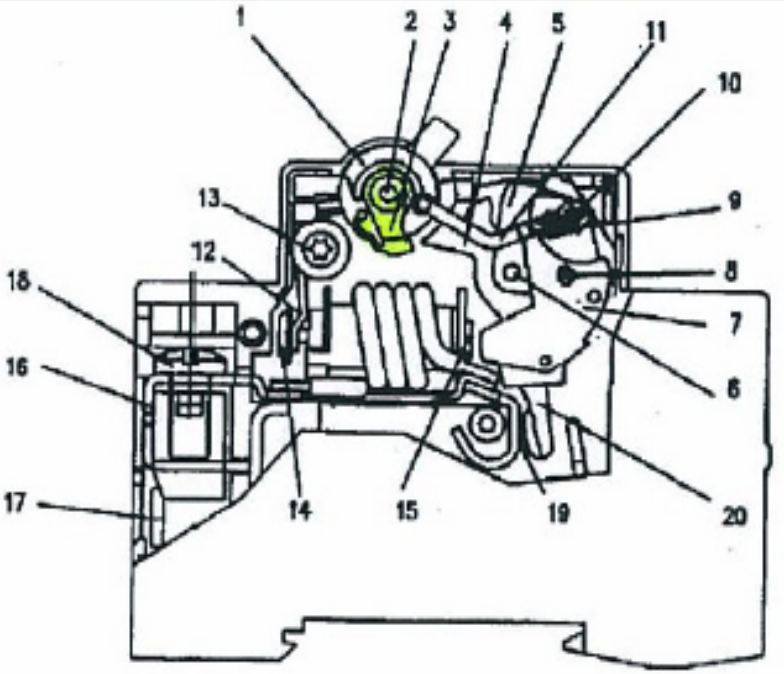
Schneider's Invention Patent ZL97125489.3 (1996 Priority Date)	CHINT's Utility Model Patent ZL97248479.5 (1997 Application Date)
	

FIG 5

图 5

CHINT v. Schneider – Outcome (as reported by media)

- Settled in April 2009 right before appellate trial.
- Worldwide settlement of all disputes.
- Settlement with payment of approx. USD 22 million to CHINT.
  - First instance court in Wenzhou did not apply a rule of apportionment for damages and awarded CHINT a damage of approximately USD 44 million.
  - The Supreme People's Court (SPC) issued an judicial interpretation in the end of 2009 which states that a rule of apportionment should be used when calculating damages.

CHINT v. Schneider – Lessons to learn

- Expect a higher burden of proof for foreign companies
- Evidence is key: keep complete original records. Schneider would have won the case if it had a notarized sample of one of its own products that predates the CHINT patent.
- Forum Shopping:
  - First Instance was in CHINT's home court;
  - Consider filing declaration of non-infringement in your selected venue first
- Monitor a local competitor's IP portfolio:
  - prepare prior art and
  - consider filing for invalidation before a case becomes political

Holley v. Samsung – Hangzhou case

- Holley asserted an invention patent covering Dual-Mode Handsets (CDMA and GSM) against Samsung SCH-W579 Phone in the Hangzhou Intermediate People's Court in April 2007

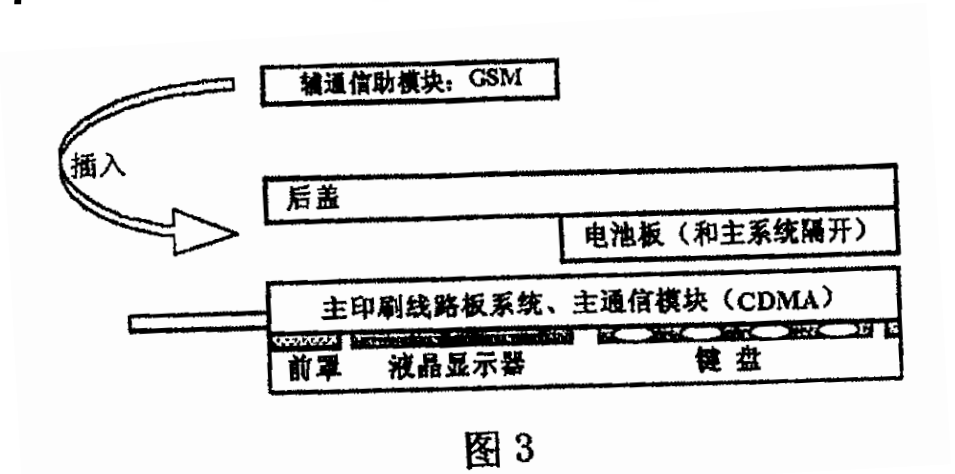


图 3

Holley vs. Samsung – Case summary

April 2007	**Holley files its Complaint against Samsung** at the Hangzhou Intermediate People's Court. Holley initially sought RMB 5 million in damages from Schneider but changed it to RMB 50 million after investigations.
May 2007	Samsung applies to invalidate Holley's invention patent before the Patent Review and Adjudication Board (PRAB) of SIPO.
December 2007	**The PRAB issues its decision upholding the validity of Holley's patent**. Samsung appealed this decision to the Beijing Intermediate People's Court.
December 2008	**The Hangzhou Court issues its judgment (about USD 7.35 million).**
May 2010	Beijing Intermediate People's Court reversed PRAB's decision and invalidated the relevant Holley patent claim.
The case is still being appealed, but parties may negotiate and settle.	

Holley vs. Samsung – Damage calculation

- The Hangzhou court did not apply a rule of apportionment. The court estimated that the total profits is likely greater than RMB 160 million, and awarded RMB 50 million to Holley because that is the amount Holley asked for.
- The decision came out before the new SPC judicial interpretation which requires total profits to be apportioned.

Holley vs. Samsung – Comments and lessons

- Samsung had good arguments of non-infringement because some claim elements are not present in the accused Samsung phone. However, the court applied the doctrine of equivalents in a liberal manner and found infringement.
- The court also used statements made by Samsung in the PRAB invalidation proceeding against Samsung while these statements were not accepted by the PRAB.
- Lesson: Prepare good evidence of prior art to invalidate a patent and argue apportionment

Huayang, Fujikasui v. Jingyuan – Fujian case

- Wuhan Jingyuan, a Chinese company, owns a patent that relates to a desulfurization process used for reducing pollutants produced in power plants.
- Huayang, a power plant in Fujian, was established in 1996 by a US company owned by Taiwanese investor(s). It contracted in 1997 Fujikasui, a Japanese company, for a desulfurization solution, and Jingyuan for a related feasibility study. It did not know that Jingyuan has previously applied for a patent.

Huayang, Fujikasui v. Jingyuan – Case summary

December 1995	Jingyuan applied for a patent. The patent was granted in September 1999.
1997	Jingyuan contracted with Huayang and conducted a feasibility study.
1997 - 1999	Fujikasui contracted with Huayang provided Huayang a desulfurization solution. Another company helped manufacture and install the desulfurization equipments. Huayang started operation in 2000.
July 1999	Jingyuan notified Huayang of its patent and offered a license.
September 2001	**Jingyuan files its Complaint against Huayang and Fujikasui** at the Fujian Higher People's Court. Jingyuan initially sought RMB 31 million in damages but changed it to RMB 76 million in 2007.
2004 - 2007	**Invalidation proceedings. PRAB, Beijing Intermediate People's Court, and Beijing Higher People's Court all upheld the validity of Jingyuan's patent.**
May 2008	**The Fujian Court issues its judgment. Fujikasui should pay a damage of about USD 7.4 million. Huayang should pay an annual license fee of about USD 70,000 starting from year 2000. Injunction is denied.**
January 2010	**SPC affirmed the damage amount, but declared that Huayang and Fujikasui are jointly liable for the damage.**

Huayang, Fujikasui v. Jingyuan - comments

- The SPC decision is reported in the news but is not published.
- The SPC's ruling of joint liability is much more favorable to Jingyuan because Jingyuan cannot collect damages from Fujikasui.
- According to the Fujian court opinion, Fujikasui sold technology instead of physical products to Huayang (with minor exceptions) for about USD 7.4 million, and the Fujian court decided that is the total profit and therefore the damage amount.
- It is not clear whether SPC considered any arguments for apportioning the total profits.

Tailong v. Top Company

- The court decision was not published. According to news reports, Zhengzhou Intermediate People's Court (in Henan) awarded Top Company USD 4.38 million in 2006.
- The dispute was between two Chinese companies.
- The technology relates to rolling mills. According to the plaintiff, each infringing rolling mill sold can cost the patent holder close to USD 4.41 million of damages.
- The case was filed in the home jurisdiction of the plaintiff. The plaintiff lost a similar case in Tianjing previously.

Lesson #1: Prepare good evidence of prior art

- Lesson #1: Monitor local competitors' patent portfolios and prepare prior art. Consider filing invalidation actions early before a case becomes political.
  - Notarized samples of old products allow you to prove that the products were sold and incorporated the relevant technology by a specific date.
  - Good prior art references can be used to invalidate the patent and to argue the prior art defense.

Lesson #1 continued: Prior art defense

- No patent infringement "if all the accused technical limitations of the accused infringing technical scheme ... are identical to or have no substantive differences with the corresponding technical limitations of a prior art technical scheme."
  - Defendant may be able to use evidence of common knowledge to show "no substantive difference" but cannot combine prior art references.
  - A good prior art reference is key for prior art defense.

Lesson #2: Consider forum shopping

Some Chinese courts (particularly some Zhejiang courts) have awarded exceptionally large damage awards against foreign litigants.

- Lesson #2: Avoid plaintiff's home court, and courts that previously awarded large damages.
  - If a warning letter is received, consider filing a declaratory judgment action in your home court.

Lesson #2 continued: declaratory judgment action

- The Chinese SPC has allowed several declaratory judgment actions.
- A 2009 SPC judicial interpretation provides a right to a declaratory judgment action in certain circumstances
  - "... if the party which has been warned or an interested party has urged in writing that the right-holder exercises its right to sue, and if within one month after receiving said notice in writing or within two months after sending said notice, the right-holder fails to withdraw the warning or to file a suit, ... the People's Court shall accept the case."

Lesson #3: Prepare for evidence preservation orders (EPOs)

- Background:
  - There is no formal discovery procedure in China – no need to automatically disclose information to the other party
  - Parties may apply for EPOs to gather evidence.

Lesson #3: Prepare for EPOs continued

- Prepare for an EPO
  - Chinese law is not clear on how a party should respond to an EPO.
  - It is not clear whether a party is required to turn over information that the party deems irrelevant or a trade secret.
  - Chinese law does not specify any penalties for not complying with an EPO, and Chinese courts have little power to compel compliance. In practice, companies often choose not to fully comply with EPOs, without incurring punishment.
- Train your employees on how to respond to EPOs - some companies (often foreign companies) over comply to their detriment.

Chinese law on damages for patent infringement

- According to the Patent Law of the PRC and a 2001 SPC judicial interpretation, damages can be determined in the following ways:

  a) Patentee's losses due to infringement

  b) infringer's profits due to infringement

  (Courts can allow patentee to choose a) or b) above. Infringer's gain is usually used because it is easier to determine.)

  c) 1-3 times reasonable royalties if a) and b) cannot be determined

  d) Statutory damages of up to RMB 1 million (USD 147,058) if a), b), c) cannot be determined

- Damages for infringement of utility models and design patents are calculated in the same way as for invention patents.

Chinese law on damages - continued

- SPC issued a new judicial interpretation in 2009 clarifying that a rule of apportionment shall be used when calculating infringer's profits:
  - "profit shall be limited to the profit caused by the infringer's infringing acts, profits generated by other rights shall be reasonably excluded"
  - "If the product which infringes invention or utility model patent rights is a part for another product, the People's Court shall reasonably determine the amount of damages based on the factors including the value of that part itself and its function in realizing the profits of the final product, etc."
- In the Dong Fang Mechanics Factory case in 2002, the SPC considered that profits should be apportioned:
  - "we consider that profits generated by discs produced by the mechanics factory include portions created by other intellectual properties..."

Lesson #4: Argue that profits shall be apportioned

- The 2009 SPC judicial interpretation and the Dong Fang Mechanics Factory case support a rule of apportionment.
- Argue that total profits contain only a small portion that relates to alleged infringement:
  - Component incorporating the patent technology is only a small part of the product
  - Other factors contributes to the profit margin: strong brand name, better quality, better designs, other patents, etc.
  - Consider submitting an evaluation report on factors that contributes to the total profits

Summary of Recommendations

- Monitor competitors' Chinese patent portfolios and prepare early to gather evidence of prior art
- Find best prior art and substantiate it
- Consider filing invalidation actions before political pressure
- Consider opportunities of forum shopping
- Prepare for EPOs
- Argue that total profits should be apportioned

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